



NEWS RELEASE

United States Senate Committee on Small Business *Olympia J. Snowe, Chair*

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SNOWE ENCOURAGED BY SBA REFORMS

(Washington) - U.S. Senator Olympia J. Snowe (R-Maine), Chair of the Senate Committee on Small Business and Entrepreneurship, today urged the Small Business Administration (SBA) to continue its efforts to improve the Agency's accounting systems, particularly the cash flow model in the SBA's Disaster Loan Program.

Snowe's remarks followed the release today of a General Accounting Office (GAO) report she requested reviewing accounting anomalies in the SBA's Disaster Loan program.

"I am encouraged to learn that the SBA appears to have more accurate methods to measure its accounts and I urge the SBA to remain focused on creating long-term, dependable accounting procedures," said Snowe. "As Chair of the Committee, I will continue to assist the SBA with future reforms – because the health and prosperity of America's small businesses is too important to allow accounting errors to undermine the integrity of the SBA."

In the report, which Senator Snowe requested in May 2003, the GAO concluded that the SBA has resolved several accounting problems. In particular, it asked the SBA to take additional steps to improve the long-term reliability of disaster loan cost estimates.

Senator Snowe noted that a January, 2003 GAO report identified four key deficiencies in the disaster loan program accounting: major flaws in the cash flow model used to estimate costs of the disaster loan program; errors in the "hold model," which was used to determine whether sales were financially beneficial to the SBA; incorrect loan values that lead to inaccurate results disclosed in the SBA's financial statements; and interest rates used to determine interest payments on debts that were inconsistent with the interest rates used to estimate the program's cost.

The SBA's accounting problems have had serious consequences, such as the incorrect assessment of the Agency's sales of packages of SBA loans, which were mistakenly viewed as profitable for the Agency, when they began in the late 1990s," Snowe stated.

As a result of the January 2003 report, The SBA implemented a number of corrective actions during fiscal years 2003 and 2004. The GAO recognized these improvements and noted that the SBA was receptive to criticism and eager to improve the situation. Today report, however, highlights a number of additional steps the SBA should take to improve the long-term reliability of cost estimates.

The study recommended that the SBA consider developing a check and balance system for its new disaster cash flow model to help facilitate proper operation, maintenance, and updating of the model. The GAO also recommended that the Office of Management and Budget (OMB) institute a few corrections to ensure that agencies' interest payments are correctly calculated.

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